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C O N F I D E N T I A L SECTION 01 OF 02 RANGOON 001098

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SUBJECT: IMF TEAM VISITS BURMA FOR ARTICLE IV CONSULTATIONS

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Classified By: CDA Villarosa for Reason 1.4 (b,d)

11. (C) Summary: An International Monetary Fund (IMF) team visited Burma July 10-21 for annual Article IV consultations. Charge met with them privately during their visit plus hosted a separate roundtable for the team with Burmese private sector business and economic observers. The IMF team received higher-level meetings than in previous years, including with the Prime Minister in the new capital of Naypyitaw. The IMF team generally found GOB officials concerned about the fiscal deficit and rising inflation, making progress on raising revenues, but failing to attract investment. The team also found the GOB unwilling to tamper with the multiple exchange rate system and unable to reconcile national accounts to determine a realistic GDP figure. GOB officials requested IMF assistance, but the IMF team leader committed to nothing beyond technical advice. The Burmese roundtable participants discussed the general deterioration experienced in every sector of the economy. The IMF team agreed that Burma had fallen behind its neighbors due to mismanagement and serious political issues. The IMF team did not provide detailed findings to us for confidentiality reasons, but they will be made available to

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the Board. Embassy Rangoon requests a copy of the report after it is sent to the Board. End Summary.

12. (C) The IMF team was led by Leslie Teo, and included Hooi Eng Phang, the Executive Director for Southeast Asia, along with representatives of the World Bank and the Asian Development Bank. They met Central Bank, Finance, Budget, Planning, Statistics, Customs, Mining, Energy, Oil and Gas, Electric Power, Construction, Labor, Industry, Education, Social Welfare and Health officials. In addition, they met

with directors of selected State-Owned Enterprises, official and private bankers, the Chamber of Commerce, and representatives of Embassies and UN agencies. Teo said that every government office requested help from the team; he made no commitments beyond technical advice. The team's meeting with the Prime Minister received prominent coverage by the government-controlled print and television media. Although pleased with the higher-level attention, Teo remained uncertain whether the team's recommendations would be relayed to the Senior General and to what extent the IMF advice would be taken.

#### Poor Quality Statistics

13. (C) The Roundtable began by discussing the quality of the statistics the GOB now collects since one of our Burmese participants had established the Central Statistics Office. He noted that the GOB no longer regularly publishes statistics. When he headed the department, he had tried to gather complete statistics without analysis to avoid political problems. But now he noted the statistics were incomplete and even less reliable without facts or analysis to back them. None of the Burmese participants believed the statistics now cited by the GOB. Teo said that officials had been very forthcoming with statistics, but noted that many of the categories of statistics they received from the GOB were marked N/A. He said the IMF could provide technical advice to the GOB on the compilation of statistics.

#### Inflation a Concern But Not Exchange Rates

14. (C) Although he could not discuss the statistics in detail for confidentiality reasons, Teo "roughly" estimated that the money supply had increased from 3 trillion kyat last year to somewhere between 4 and 5 trillion kyat this year. The IMF team estimated that year-on-year inflation was 12.6

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percent, which surprised the roundtable participants. The IMF team explained that the fuel price increases and civil servant wage increases had occurred towards the end of the year. With those increases factored in, the IMF estimated inflation this year could reach 30-50 percent. Teo said the technical-level officials were very concerned about inflation. The GOB had followed the IMF's advice made last year to reduce fuel subsidies and improve revenue collection, which had helped to reduce the deficit. He also noted large increases in foreign exchange revenues from gas sales. Teo dismissed GOB excuses that sanctions had caused inflation. The GOB also cited declining investment as a reason, and the team suggested ways to improve the investment climate.

15. (C) The Burmese roundtable participants complained about increased complications with customs, which they attributed to GOB attempts to increase revenues. A pharmaceutical distributor said that importers and exporters now must spend 10-14 days and make several trips to the new capital to get necessary approvals; this added to the costs of doing businesses. Others chimed in with complaints about corrupt Customs officials. They requested the IMF advise the GOB to simplify the process and make it more transparent. Teo promised to do so saying the GOB needs to improve transparency. He added that the Prime Minister seemed particularly interested in measures to combat corruption.

16. (C) The Civil Service pay hikes announced last April also troubled the Burmese roundtable participants. One former state banker noted that he calculated that the increases would cost the GOB 45 billion kyat per month, or 540 billion kyat over the coming year. As a result, the price of rice had increased 50 percent since April. So now private sector workers seek wage hikes, which will further fuel inflation and harm businesses already losing money due to higher fuel prices and increased transactions costs. The Burmese roundtable participants acknowledged that civil service wages

had been kept too low for too long, but criticized the timing as bad psychologically.

¶17. (C) Teo commented that the market rate of the kyat did not appear to depreciating dramatically, signifying that inflation was not spiraling out of control. The Burmese participants acknowledged that it had stabilized around 1310 kyat for one US dollar, but said officials frequently put pressure on the money changers to maintain stability. The Burmese also cited slowing business and the closure of border trade as other factors depressing the demand for US dollars.

¶18. (C) Charge asked if the IMF had discussed the wide variation in the official exchange rate (6 kyat/US\$1) and the market rate with numerous other in-between rates. Teo said they have repeatedly tried to address this over the years, but officials express great reluctance to make any adjustments. The Burmese participants said almost all Burmese used the market rate anyway, so concluded that the official rate just distorts Burma's national income accounts. Teo acknowledged that the team had also been unable to resolve differences about Burma's national accounts and GDP, but indicated some GOB receptivity to technical assistance in this area.

¶19. (C) Comment: The IMF team clearly recognized that there is little they could do as long as the larger political issues remain unresolved. Greater transparency would reveal the military's mismanagement of the economy. For that reason, we do recommend that the IMF be encouraged to provide technical assistance that increases transparency.  
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